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	LAB-01	L-00	CAC-00	MOFM-00	MOF-00	VCIE-00	NSAE-00
	ISN-00	OCS-00	OES-00	OIC-00	OIG-00	NIMA-00	PA-00
	PM-00	MA-00	P-00	SCT-00	ISNE-00	FMPC-00	SP-00
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E.O. 12958: DECL: 03/25/2024
 TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [KS](#)
 SUBJECT: AMBASSADOR DISCUSSES ECONOMIC ISSUES WITH BLUE
 HOUSE SENIOR SECRETARY YOON

REF: A. SEOUL 0106
[1](#)B. SEOUL 0428

Classified By: Acting Minister Counselor for Economic Affairs
 Gregory S. Burton. Reasons: 1.4(B) and (D).

[1](#)1. (C) Summary: The Ambassador discussed key ROKG economic priorities with Blue House Senior Secretary Yoon Jin-sik when they met on March 20. Yoon told the Ambassador that President Lee Myung-bak strongly supports a coordinated fiscal stimulus on the part of G-20 members. Yoon also confirmed that other top ROKG priorities for London would be to address toxic assets and take a renewed stance against protectionism. Yoon also highlighted that the ROKG would introduce a supplemental budget stimulus package to the National Assembly before the end of March. He anticipated that the package would include 29 trillion won (approximately USD 20.9 billion) in spending, and would focus on jobs and social welfare measures. (Note: This bill was passed by the cabinet on March 24). Yoon also made it clear that the ROKG would greatly appreciate additional U.S. help in the form of an expanded and extended bilateral currency swap. The Ambassador noted that this is within the purview of the U.S. Federal Reserve Bank. End Summary.

ROKG Focus on G-20 Summit

[1](#)2. (C) The Ambassador on March 20 made her first call on Blue House Senior Secretary for Economic Affairs Yoon Jin-Sik since he was appointed to the position in late January. Yoon was accompanied by Secretary for Financial Affairs Yim Jong-Yong. Yoon was appointed on January 19, when President Lee Myung-bak reshuffled the top three leaders of his economic team (Ref A). While Ref B provided reactions and expectations of the ROKG G-20 Sherpa and Finance Coordinator, Yoon was able to provide additional insight into the thinking of President Lee.

[1](#)3. (C) Senior Secretary Yoon confirmed that he will accompany President Lee Myung-bak to London for the Summit. He told the Ambassador that President Lee strongly supports a coordinated fiscal stimulus on the part of G-20 members and that he is focused on Korea's additional fiscal stimulus package -- a supplemental budget bill. Yoon said the ROKG would present the supplemental bill to the National Assembly

before the end of March but was not sure whether it would be announced formally in London. He noted that the opposition Democratic Party in the National Assembly wanted a smaller bill than the 29 trillion won (USD 20.9 billion or 2.5-3.0 percent of 2009 GDP) package being prepared by the ROKG. He thought that it would be difficult, however, for the Democratic Party to strenuously oppose a bill that is focused primarily on jobs and social support. Yoon continued that there is an international consensus to increase macroeconomic stimulus measures to an agreed level. President Lee supports this consensus and thinks the standard should be set in the 2-3 percent range.

¶4. (C) Yoon also identified other ROKG priorities for the G-20 Summit, including the need for the G-20 to work together to ensure that toxic assets are addressed. He also noted that ensuring that the G-20 take a stance against protectionism is a high priority for President Lee. Yoon specifically stated that President Lee believes that no form of protectionism should be tolerated.

Employment is Top Priority

¶5. (C) The Ambassador noted that in addition to stimulating the economy, the ROKG was pursuing many measures to stabilize the financial sector, assist small and medium enterprises, and create a more business-friendly investment climate. She asked what President Lee considers his top domestic economic priority. Yoon responded that the top priority is jobs. He noted that much of the stimulus spending will be devoted to the creation of up to 500,000 short-term jobs and a smaller number of permanent positions to provide social services to low income groups. Social services would also receive funding in the supplemental. Yoon stressed, however, that the stimulus package (known as the "job-creation budget") was first and foremost a jobs bill. He added that the Korean public is strongly supportive of the parallel ROKG job sharing initiative. He explained that the program began in public institutions and government-backed financial institutions. Workers, especially new entrants into the labor force, take a wage cut of 10-20 percent to allow their employers to hire additional interns. He observed that the initiative was gaining traction in the private sector with many of the Korean conglomerates adopting the practice. He likened the job sharing program to the gold collection campaign that helped raise foreign exchange for the ROKG during the Asian Financial Crisis in 1998.

¶6. (C) Yoon acknowledged that there would be a political struggle over the ROKG's efforts to protect temporary workers from massive job cuts this year by extending the limit on how long a worker may stay in a job before becoming a permanent employee. Yoon noted that heated discussions had already taken place in the National Assembly and that he hoped progress would be possible.

ROKG Hopes for Expansion of the Bilateral Swap

¶7. (C) Yoon then turned the conversation to Korea's financial stability. He noted that the collapse of Lehman Brothers set off a chain of events that quickly drained dollars out of the Korean economy, which was wide open to foreign financial flows. He said the ROKG has set aside well over USD 200 billion in foreign exchange reserves and had undertaken other preparations, but still had not been ready for the magnitude of the challenges presented by the financial crisis. He noted the extremely positive role the U.S. played in stopping the growing sense of panic in the financial sector when the U.S. Federal Reserve Bank established the USD 30 billion bilateral swap line with the Bank of Korea. Yoon continued that the renewed financial anxiety in February had driven the won briefly over the level of 1600 per dollar, before the situation calmed in March. The ROKG does not want to be caught unprepared for another such bout of financial anxiety

and would like to have additional resources available. He then said that the ROKG needs to expand and extend the duration of the swap line. Yoon said the government is fully aware that the United States has its own circumstances and many factors to consider. According to Yoon, the government and people of Korea would greatly appreciate the additional signal of U.S. support. In addition to strengthening the ROK-U.S. alliance, Yoon said the move would be positive, even if the swap line went untapped, as a signal to foreign investors of U.S. confidence in the ROK economy.

18. (C) The Ambassador noted that we understood how hard the ROKG was working to ensure that the economy weathers the financial crisis and global slowdown. She also noted that the U.S. Federal Reserve is responsible for any decisions with respect to the currency swap.

STEPHENS